

MINUTES OF ROANOKE CITY AUDIT COMMITTEE

June 5, 2006

1. CALL TO ORDER:

The meeting of the Roanoke City Audit Committee was called to order at 11:00 a.m. on Monday, June 5, 2006, with Chair, Dr. M. Rupert Cutler, presiding.

- **The roll was called by Mrs. England**

Audit Committee

Members Present: Dr. M. Rupert Cutler, Chair
Mayor C. Nelson Harris
Vice-Mayor Beverly T. Fitzpatrick, Jr.
Alfred T. Dowe, Jr.
Sherman P. Lea
Brenda L. McDaniel

Audit Committee

Member Absent: Brian J. Wishneff

Others Present: Drew Harmon, Municipal Auditor
Darlene L. Burcham, City Manager
William M. Hackworth, City Attorney
Jesse A. Hall, Director of Finance
Rolanda Russell, Asst. City Manager for Community Development
James Grigsby, Acting Asst. City Manager for Operations
Mary Parker, City Clerk
Larry Brown, Public Information Officer
Karl Cooler, Building Commissioner
Mike Tuck, Assistant Municipal Auditor
Pam Mosdell, Information Systems Auditor
Cheryl Ramsey, Auditor
Geri Hayes, Senior Auditor
Doris England, Administrative Assistant
Gwen W. Mason, Council Member Elect
R. Timothy Conner, Partner, KPMG LLP
Peter J. Ragone, II, Senior Manager, KPMG LLP
Evelyn Bethel, Citizen
Helen Davis, Citizen

2. APPROVAL OF MINUTES FROM MARCH 6, 2006, MEETING

Chairman Cutler asked if there were any corrections or amendments to the minutes of the March 6, 2006, Audit Committee meeting. There were none.

Mr. Harris moved and Mr. Fitzpatrick seconded that the minutes be approved as distributed. A vote was taken and the motion carried. The minutes will be placed on the Consent Agenda for the next City Council meeting.

3. INTERNAL AUDIT REPORTS:

- A. Accela
- B. Purchasing Cards

Chairman Cutler ordered that items A and B be received and filed. There were no objections to the order. Chairman Cutler recognized Mr. Harmon for comments on each of the audits beginning with the Accela audit.

Mr. Harmon stated the Accela audit was requested by the Department of Technology and the Department of Planning, Building and Economic Development. Mr. Harmon explained this was more of a consultation than an audit in that Municipal Auditing was asked to look at the change control of the Accela system. Chairman Cutler asked for the definition of change control, and Mr. Harmon responded that any system must be updated and go through changes, such as the change in building permit fees that the city charges. There are changes in how the screen appears and the reports that run off the system. Mr. Harmon stated the Accela system is being utilized more fully than ever and appears in better shape than ever before, to the credit of the Building Commissioner, Karl Cooler. Mr. Harmon explained the system is used to track everything from when the contractor comes in to apply for a building permit for construction to the inspection process, and all the way through to the issuance of a certificate of occupancy. The initiatives planned to strengthen change controls include developing a written service level agreement, maintaining centralized documentation of changes and testing, removing the operations center from the process to load changes to production, and reducing the number of users with administrative rights in the system.

Mr. Harmon asked if the committee members had any questions regarding the Accela audit. Chairman Cutler noted that Finding 03 states the “Accela system was not designed with adequate provisions for controlling changes and ensuring the integrity of data,” and the “opportunity for mistakes in moving changes to production is increased.” Dr. Cutler asked Mr. Harmon how these concerns were being addressed. Mr. Harmon replied that limiting access to the system and implementing more formal procedures for change control are essentially all that can be done to protect the integrity of the system. Chairman Cutler asked Ms. Burcham if she had any comments on the system. Ms. Burcham stated the current Building Commissioner was taking advantage of automation to track the permits and also relieve employees of some unneeded paperwork.

Chairman Cutler asked Mr. Harmon for his comments on the Purchasing Card audit. Mr. Harmon stated the City of Roanoke manages its purchasing card program very efficiently in comparison to many other localities. He noted there were no significant misappropriations or misuses of the cards. Mr. Harmon referred committee members to the finding addressing approval signatures and stated that the review and approval process has always been considered an effective and necessary control over p-card purchases. The approval process was designed to also provide for reviews of purchases made by elected and appointed officials by Management and Budget. Upon review, it was agreed that the Purchasing division would be the more appropriate authority to review purchases by elected and appointed officials. Mr. Harmon also noted that future audits by the Municipal Auditing department would specifically include steps to review purchases transacted on purchasing cards issued under the names of elected and appointed officials. Mr. Harmon then referred committee members to the finding addressing split purchases and explained that splitting or breaking up purchases allows employees to exceed their purchasing authority, avoid obtaining quotes, and increases the risk that capital equipment would not be captured in the accounting records. Mr. Harmon stated that over 26,000 purchases were transacted during the period audited and that computer software was utilized to identify potential split purchases. This testing identified only nine split purchases. Mr. Harmon stated that one, and possibly two, of the nine transactions identified were not in fact split purchases based on additional information recently provided by the employees involved. Mr. Harmon stated that overall this year's audit results indicated improved compliance with purchasing card program policies and procedures. Mr. Harmon specifically cited the reduced utilization of affidavits in place of original receipts and the improved notations on receipts and invoices to document the purpose of purchases.

Chairman Cutler asked Mr. Harmon about the Libraries being excluded from this audit. Mr. Harmon replied that purchasing cards held by the Libraries had been excluded because a separate, unscheduled audit of all purchases was being performed at the Libraries.

Chairman Cutler asked Ms. Burcham for her comments. She stated that steps had been taken by administration regarding the split purchases, and any future split purchases by those individuals identified will result in the suspension of their use of the purchasing card. Mr. Burcham noted that following each year's purchasing card audit, there had been considerable improvement. She said she did not expect to see any split purchases next year. Ms. Burcham stated that the use of the p-card has enabled employees to work more efficiently and effectively; and thus, it is important to keep the integrity of the program at a high standard. Mr. Hall stated he agreed with Ms. Burcham. The purchasing card program is efficient and most employees

who use it comply with the procedures. He stated that those who did not would lose the privilege of using the card.

Mr. Dowe expressed his concern that terminated employees would still have purchasing cards in their possession. Mr. Hall explained that the employees in most cases would turn in their card but the associated account would not be de-activated in a timely manner. Mr. Harmon emphasized that terminated employees have not actually made any purchases on a city purchasing card after termination. Mr. Hall stressed the importance of department heads reviewing monthly statements on a timely basis to help ensure unauthorized purchases are quickly identified and addressed. Mr. Harmon noted that the City has a new purchasing card provider with on-line services that provide the capability for department managers to monitor purchases on a daily basis.

4. UNFINISHED BUSINESS:

A. Letter from Auditor of Public Accounts – Clerk of the Circuit Court Audit

Chairman Cutler ordered that the letter from the Auditor of Public Accounts [APA] regarding the Clerk of the Circuit Court audit be received and filed. There were no objections to the order. Chairman Cutler recognized Mr. Harmon for comments. Mr. Harmon reminded committee members that the Auditor of Public Account's report incorporates the audit work performed by the Municipal Auditing department's staff that was reported to the committee in March. Mr. Harmon noted that there were no findings and no instances of noncompliance.

5. NEW BUSINESS:

A. KPMG External Auditors – General Audit Plan for Fiscal Year Ending June 30, 2006

Chairman Cutler recognized Mr. R. Timothy Conner, KPMG Engagement Partner, to speak to the committee members regarding the General Audit Plan for Fiscal Year Ending June 30, 2006. Mr. Conner referred to the booklet that he had distributed to all committee members and went over the engagement team members and the entities subject to audit and reporting. These entities include the City of Roanoke, School Board of the City of Roanoke, Greater Roanoke Transit Company, Southwestern Virginia Transit Management Company, Inc. Retirement Plan and Trust, and the City of Roanoke Pension Plan. Mr. Conner reviewed the engagement timetable, pointing out that final reports were scheduled to be complete by mid-November. Mr. Conner introduced Mr. Peter J. Ragone, II, KPMG Engagement

Senior Manager, to speak to the committee regarding the audit approach. Mr. Ragone went over the four steps in the audit process, which include planning, control evaluation, substantive testing, and completion. He then spoke about the significant audit areas to be covered in the City of Roanoke, the School Board, Greater Roanoke Transit Company, and the City's Retirement Plan. Mr. Ragone discussed the audit work required under the U.S. Office of Management and Budget Circular A-133, more commonly referred to as Single Audit work. Mr. Ragone identified four programs that require audit this year based on A-133 guidelines. The programs are the Community Development Block Grant, Special Education, Title I, and Title II-A. Mr. Ragone also highlighted that the Virginia Auditor of Public Accounts has adopted a new requirement for localities to prepare a separate report on local telecommunications taxes and to have these reports examined and verified by an independent auditor. Mr. Ragone mentioned Government Accounting Standards Board [GASB] statement number 42 that addresses impairments of capital assets that would require recognition in a locality's financial statements. He also mentioned GASB statement number 44, which specifies required information in the statistical section of the comprehensive annual financial report. Mr. Ragone reviewed the responsibilities and assistance provided by city departments, which will be consistent with past years' audits.

Mr. Conner then commented that the examination of the City's report on telecommunications tax revenues required by the APA will require a separate engagement letter. Mr. Conner estimated that the cost of the examination will be approximately \$3,500.

Mr. Conner asked the committee members if there were any areas they would like to bring to the attention of the external auditors. No comments were offered by committee members. Mr. Harmon reminded committee members that the contact information for Mr. Conner and Mr. Ragone was attached to the front of the general audit plan in each member's committee packet. Chairman Cutler stated that, in turn, the KPMG auditors could also contact Audit Committee members if there is anything they would like to discuss.

6. OTHER BUSINESS

Chairman Cutler recognized Mr. Harmon for comments. Mr. Harmon presented Dr. Cutler with a plaque denoting Dr. Cutler's service as Audit Committee Chairman for two years. Mr. Harmon expressed the Auditing department's appreciation and gratitude to Dr. Cutler for his dedication, professionalism, inquisitiveness, and support. Mayor Harris stated the other members of the committee echoed those sentiments.

7. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:35 a.m.

A handwritten signature in dark ink, appearing to read "M. Rupert Cutler", with a long horizontal flourish extending to the right.

M. Rupert Cutler, Chair